



# **EFFECT OF COMPENSATION ON EMPLOYEE PRODUCTIVITY IN THE CASE OF KALITY FOODS MANUFACTURING FACTORY, ADDIS ABABA**

**BY**

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### **Declaration**

I, the undersigned, declare that this thesis entitled “Effect of Compensation on Employee Productivity In The Case of Kality Foods Manufacturing Factory, Addis Ababa” is my original work. I have under taken my research work independently with the guidance and support of the research advisor. All source of materials used for this thesis have been duly acknowledged. I further confirm that, the thesis has not been submitted in any other learning institution for the purpose of earning any degree.

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## CERTIFICATE

This is to certify that the thesis prepared by Ato Habtamu Abebe “The Effect of Compensation on Employee Productivity The Case of Kality Foods Manufacturing Factory, Addis Ababa” And submitted in fulfillment of the requirement for the degree of master of business Administration, complied with the regulation of the University and meets the accepted standard with respect to originality and quality.

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### *Abstract*

*Compensation is very important for the productivity of the employees. Therefore they are very important for the organization too. The purpose of this research is to assess the effect of compensation on employee productivity in the case of Kality Foods Manufacturing Factory. This study employed both descriptive and explanatory type of research design. Questionnaire, interview and document review were used as data collection tools. The data was collected from Kality Foods Manufacturing Factory. The data collected were analyzed in SPSS 20.0 Version. The total population of the study are the entire employee of Kality Foods Manufacturing Factory which are 368 and using simple stratified random sampling 110 employees are selected as sample. Descriptive, correlation and regression analysis were used to analyze the data. Finding of descriptive analysis reveals that all the compensation package variables have an effect on employee productivity. It is proved from correlation analysis that Non-financial compensation have negative weak insignificant relationship with employee productivity whereas financial compensation have strong positive significant relationship with employee productivity. Regression analysis result, also shows that financial compensation have significant and positive effect on employee productivity whereas Non-financial compensation have insignificant & negative effect with employee productivity.*

*Key words: Compensation, Administration, employee Productivity, Organization*

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## Table of Contents

|                       | Page No |
|-----------------------|---------|
| Title page-----       | ii      |
| Declaration -----     | iii     |
| Certification -----   | iv      |
| Abstract -----        | v       |
| Acknowledgement ----- | vi      |
| Table of content----- | vii     |
| List of Tables-----   | vii     |
| List of figures-----  | xi      |
| Abbreviations -----   | xiii    |

### CHAPTER ONE: INTRODUCTION

|                                                             |   |
|-------------------------------------------------------------|---|
| 1.1 Back ground of the study .....                          | 1 |
| 1.2 Back ground of Kality Foods Manufacturing Factory ..... | 2 |
| 1.3 Statement of the Problem .....                          | 3 |
| 1.4 Research questions .....                                | 4 |
| 1.5 Objective of the study .....                            | 4 |
| 1.5.1 General objective of the study.....                   | 4 |
| 1.5.2 Specific objective of the study .....                 | 5 |
| 1.6 Significance of the Study.....                          | 5 |
| 1.7 Delimitation of the Study.....                          | 5 |
| 1.8 Limitations of the study .....                          | 6 |
| 1.9 Definitions of key terms .....                          | 6 |

|                                                                      |    |
|----------------------------------------------------------------------|----|
| 1.10.Organization of the Thesis.....,,,                              | 6  |
| <b>CHAPTER TWO: REVIEW OF RELATED LITERATURE</b>                     |    |
| 2.1 Theoretical literature review.....                               | 8  |
| 2.1.1. Definition of Compensation & Compensation Administration..... | 8  |
| 2.1.2. Type of compensation .....                                    | 9  |
| 2.1.3. Financial compensation.....                                   | 10 |
| 2.1.3.1.                                                             |    |
| 2.1.4. Non-Financial compensation.....                               | 11 |
| 2.1.4.4. Reward and productivity.....                                | 11 |
| 2.1.5. Effect of Compensation Administration.....                    | 14 |
| 2.1.6. Compensation and Productivity.....                            | 16 |
| 2.1.7. Methods Used to Determine Employee’s Compensation .....       | 16 |
| 2.1.8. Categorization of Employee’s Compensation.....                | 17 |
| 2.1.9. Factors affecting compensation .....                          | 18 |
| 2.1.8. Compensation responsibilities.....                            | 19 |
| 2.2. Empirical literature review.....                                | 20 |
| 2.3. Conceptual Framework .....                                      | 21 |
| <b>CHAPTER THREE: RESEARCH DESIGN &amp; METHODS</b>                  |    |
| 3.1 Research Design & Approach .....                                 | 22 |
| 3.2 Population and Sampling.....                                     | 22 |
| 3.2.1. Target Population of the study.....                           | 22 |
| 3.2.2. Sampling Technique & sample size.....                         | 23 |
| 3.3 Data Collection Tools and Procedures.....                        | 24 |
| 3.3.1 Data Collection Procedures .....                               | 24 |

|                                                                                       |    |
|---------------------------------------------------------------------------------------|----|
| 3.3.2 Data Collection Tools.....                                                      | 24 |
| 3.4 Data Analysis and Presentation.....                                               | 24 |
| 3.5 Variables and Measurement .....                                                   | 25 |
| 3.6 Reliability and Validity.....                                                     | 25 |
| 3.7 Ethical consideration.....                                                        | 26 |
| <b>CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRITATION</b>                   |    |
| 4.1. Introduction.....                                                                | 27 |
| 4.2 Demographic characteristics of Respondents.....                                   | 27 |
| 4.3 Factors that determine employee compensation Package at KFMF.....                 | 30 |
| 4.4 Level of satisfaction with compensation and readiness to increase productivity... | 31 |
| 4.5. Mechanisms of managing compensation .....                                        | 32 |
| 4.6 Methods Used to Determine Employee’s Compensation.....                            | 32 |
| 4.6.1 Employee Compensation Constitutes a Significant Portion of the Co. Costs.       | 33 |
| 4.6.2 Employee’s Compensation Plan is Well Formulated .....                           | 33 |
| 4.6.3 Pay Structure Ensures Internal Equity .....                                     | 34 |
| 4.6.4 Pay Structure Ensures External Equity.....                                      | 35 |
| 4.6.5 Jobs are Well Defined.....                                                      | 35 |
| 4.6.6 Employees are Adequately Compensated for the Use of Skills.....                 | 36 |
| 4.6.7 Incentives for Gaining New Skills or Knowledge .....                            | 37 |
| 4.6.8 Employee Compensation Decisions are centrally Managed.....                      | 38 |
| 4.6.9 Salary Surveys are conducted before Determining New Salaries.....               | 38 |
| 4.7. Effect of compensation on employee productivity .....                            | 39 |
| 4.8. Correlation between FC & NFC and employee productivity.....                      | 40 |



|                                                                         |    |
|-------------------------------------------------------------------------|----|
| 4.9. Regression Analysis Result .....                                   | 41 |
| 4.9.1. The effect of compensation package on Employee productivity..... | 39 |

## CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATION

|                                           |    |
|-------------------------------------------|----|
| 5.1 Introduction.....                     | 45 |
| 5.2 Summary of findings.....              | 45 |
| 5.3 Conclusions.....                      | 47 |
| 5.4 Recommendations .....                 | 47 |
| 5.5 Suggestions for Further Research..... | 49 |
| References .....                          | 50 |
| Appendix.....                             | 53 |

| List of Table                                                                                 | Page No |
|-----------------------------------------------------------------------------------------------|---------|
| Table 3.1 Sample of population.....                                                           | 23      |
| Table 3.2 Reliability test result.....                                                        | 25      |
| Table 4.1 Gender of respondent.....                                                           | 27      |
| Table 4.2. Age distributions of respondents.....                                              | 28      |
| Table 4.3. Education level of the respondent.....                                             | 28      |
| Table 4.4 Respondent service year at KFMF.....                                                | 29      |
| Table 4.5 Departmental category of Respondent.....                                            | 29      |
| Table 4.6 Factors that determine the compensation package at KFMF .....                       | 30      |
| Table 4. 7 Level of satisfaction with compensation and readiness to increase productivity.... | 31      |
| Table 4.8 Compensation Constitutes a Significant Portion of the Company's Costs.....          | 32      |
| Table 4.9 Employee's compensation plan is well formulated.....                                | 32      |
| Table 4.10 Pay Structure Ensures Internal Equity.....                                         | 33      |
| Table 4.11 Pay Structure Ensures External Equity.....                                         | 33      |
| Table: 4.12 Jobs are Well Defined.....                                                        | 34      |
| Table 4.13 Employees are Adequately Compensated for the Use of Skills.....                    | 34      |
| Table 4.14 Incentives for Gaining New Skills or Knowledge.....                                | 35      |
| Table 4.15 Employee Compensation Decisions are centrally Managed.....                         | 35      |
| Table 4.16 Salary Surveys are conducted before Determining New Salaries.....                  | 36      |
| Table4.17 Employee compensation and productivity.....                                         | 36      |
| Table 4.18 Correlation between compensation package (FC & NFC) and employee productivity....  | 37      |
| Table 4.19 Model Summary.....                                                                 | 39      |
| Table 4.20 Anova <sup>a</sup> test.....                                                       | 39      |
| Table 4.21 Coefficients.....                                                                  | 45      |

| List of Figures                        | Pages No |
|----------------------------------------|----------|
| Figure 2.1 Conceptual frame work ..... | 26       |

## Abbreviations

KFMF: Kality Foods Manufacturing Factory

EF: Employee performance

NFC: Non- Financial Compensation

FC: Financial compensation

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the study**

Compensation processes are based on Compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation (Bob, 2011). This constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation administration is not just about money. It is also concerned with that non- financial compensation which provides intrinsic or extrinsic motivation for employees to improve in their performance (Bob, 2011).

Compensation implies having a compensation structure in which the employees who perform better are rewarded much more than the average performing employees (Pearce, 2010). Compensation Administration is concerned with the formulation and implementation of strategies and Policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization (Armstrong, 2005). The task in compensation administration is to develop policies and procedures that will attain maximum return on Naira spent in the terms of attracting, satisfying, retaining and perhaps motivating employees (Anyebe, 2003). Over time it has been a case in some organizations that their employees are under-remunerated or that some organizations do not have good compensation administration programs. This could be that employee promotion does not come in time, or that their pay packages are not commensurate to the work they have done for the organization (Fein, 2010). At times, this could be a deliberate act by management in order to frustrate the employees or

that the management lacks the required managerial capabilities to effectively administer a compensation administration program (Dyer & Schwab 2004). Gone are those days when such issues can be condoned or accepted by the employees, and therefore there is a need to tackle the problem head long so that employees can bring out their best in terms of performance in order to boost their productivity. Compensation is one of the key drivers of productivity because humans are naturally inclined to perform better when they perceive that they will get sufficient payment or returns from their efforts. While people exert effort for different reasons, today's competitive economic environment coupled with the consumer society has made compensation arguably the most important motivation factor. Most people are motivated by money at least for their basic needs and wants. Compensation in any form is the most obvious extrinsic reward; it provides the carrot that most people want (Armstrong, 2008). DeNisi and Griffins (2008) defines compensation as the set of rewards that organizations provide to individuals in return for their willingness to perform various jobs and tasks within the organization.

## **1.2 Background of Kality foods manufacturing factory**

KFMFSC is located in Addis Ababa Akaki kality subcity woreda 7. KFMFSC is the first industrial food processing in Ethiopia, and its flagship brand cerealia have been house hold names known and loved by more than three generation. Since establishment in 1930 E.C, Kaliti foods have been gracing the homes of millions of Ethiopian with a Varsity of affordable wheat-based food products. The main factory site of kality foods share company is situated on 68,000 m<sup>2</sup> of land which houses the flour mill, a two-line biscuit plant, a two-line pasta / macaroni plant and an industrial bakery with a daily production capacity of 150 tons, 36 tons, 24/24 tons and 8 tons respectively. After seven decades under state owner ship KFMFSCo.

acquired in 2003G.C by a young and visionary company, Romel general trading plc through the public asset privatization program (KFMFSC magazine 2016).

### **1.3. Statement of Problem**

While compensation is arguably one of the key drivers of for productivity and one of the most studied areas, doubts have been cast by Armstrong (2008) on the effectiveness of compensation. He argued that, while lack of it causes dissatisfaction, its provision does not result in lasting motivation. The effects of compensation on productivity vary from organization to organization.

Most people are motivated by money at least for their basic needs and wants (DeNisi and Griffins, 2008). Employee productivity through compensation can be in several forms including salary raises, performance bonuses, commissions, profit sharing and other extra benefits such as vacations, cars and other tangible items that are used as rewards (Campbell, 2007). These compensation systems can be categorized as direct financial payment and indirect financial payments (Dessler, 2004).

Nelson and Spitzer (2003) states that in today's work environment, there is more change and uncertainty, there is increased need for empowered employees, there is decline in traditional incentives, there is rise of nontraditional incentives and there is increased use of variable compensation. Studies have also shown that compensation programs and the methods of administration affect employee productivity (Bowen, 2000). Many researchers have focused on satisfaction, recognition, appreciation and work environment as employee motivators in different organizations (Kosgei, 2011). Organizations have invested heavily in benefits, learning and development and work environment for the sake of their employees so as to achieve the set objectives or goals of the organization (Pesaler, 2008).Very little attention has

however been paid to factors which drive employee productivity. The studies that have been conducted have totally neglected this area of research. It is not clear whether productivity is actually achieved when employees get compensation. There has not been such a study carried out in the KFMMF of this nature. Therefore, this study attempted to close this gap by bringing to light and giving a clearer understanding of the influence of Compensation on employee productivity at Kaliti foods manufacturing Factory Company.

#### **1.4. Research Questions**

This study guided by the following basic research questions:

1. What are the factors that determine employee's compensation packages at kaliti foods manufacturing factory?
2. Are employees satisfied with compensations and increase their productivity at kaliti foods manufacturing factory?
3. How can compensation be managed to increase employee's labor productivity at kaliti foods manufacturing factory?
4. What types of relation have compensation package and employee productivity at kaliti foods manufacturing factory?
5. How financial and non-financial compensation affect employee performance at kaliti foods manufacturing factory?

#### **1.5. Objectives of the study**

##### **1.5.1. General Objective**

The general objective of the study is to determine the effect of compensation Packaging on employee productivity in the case of Kaliti Foods Manufacturing plc.



### **1.5.2. Specific objectives**

- i. To identify the factors that affect employee compensation Packaging at Kality Foods Manufacturing Factory.
- ii. To determine the satisfaction level of employee on compensation and readiness to increase their productivity at Kality Foods Manufacturing Factory
- iii. To assess the means of managing compensation to increase labor productivity at Kality Foods Manufacturing Factory
- iv. To determine the relationship between compensation and employee Productivity at Kality Foods Manufacturing Factory.
- v. To examine the effect of the financial & Non- financial compensation and employee productivity at Kality Foods Manufacturing Factory.

### **1.6. Significance of the Study**

The findings of this study can benefit to the management of Kality foods manufacturing factory. The management of the target companies are able to identify the gap between their compensation package and its impact on employee productivity to make corrective action and better decision in the future on their compensation system for their workers and the company. For other similar industry, too it uses as a reference for other companies who are trying to improve their compensation package for their workers and company. For Scholars and Researchers it add to the existing field of knowledge on compensation and productivity and provide scholars with the necessary literature review to carry out further research.

### **1.7. Delimitation of the study**

The research study covers the entire Kality Foods Manufacturing Factory which is located in the Addis Ababa Akaki Kality sub city worda 7. In order to have finite and clear

understanding the study concentrate only on the effect of compensation package on employee productivity of Kality Foods Manufacturing Factory and not consider other factors that affect productivity due to financial and time constraint.

### **1.8. Limitation of the study**

The major limitation of this research is, the study only covers the kality foods manufacturing factory in Addis Ababa. Other limitation is, it excludes other factors that affect employee productivity. Apart from these limitations this research provides insights to the managers to enhance the employee productivity of their subordinates.

### **1.9. Definitions of key terms**

**Compensation:** is the package of quantifiable rewards an employee receives for his or her labor. It includes three components: base compensation, pay incentives and indirect compensation/ benefits. (Gomez et al, 2012).

**Productivity:** is the individual output; this may be in the form of units per person or revenue generated per person (Amstrong, 2008).

**Compensation Administration:** is a compensation structure in which the employees who perform better are paid more than the average performing employees (Hewitt, 2009).

**Financial compensation:** is a direct compensation consists of the pay an employee receives in the forms of wages, salaries, bonus or commission (Dessler, 2008).

**Indirect financial compensation:** is a benefit consisting of all financial rewards those are not included in direct financial compensations (Dessler, 2008).

### **1.10. Organization of the thesis**

This Study paper consists of five chapters. Chapter one consists of back ground of the Study, Statement of the Problem, Objectives of the Study, research questions, Significance of the

Study, Delimitations of the study, Limitation of the study and organization of the thesis. The second Chapter deals with theoretical& empirical literature review and the third chapter presents research design and methods which consists of research design, research sample selection, data collection procedures .chapter four deals with data analysis and presentation the fifth chapters presents summary of findings , conclusions and recommendations respectively.

## **CHAPTER TWO: REVIEW OF RELATED LITERATURE**

### **2.1 Theoretical Literature Review**

#### **2.1.1. Definition of compensation & compensation administration**

The Journal of Global Business and Economics (2010) also defines compensation as “the combination of all cash incentives and the fringe benefits mix that an employee received from a company which constitutes an individual’s total compensation”. (Chabra, 2001) refers to Compensation as a wide range of financial and non-financial rewards given to employees in exchange for their services rendered to the organization. According to him, it is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance, maternity leave, free traveling facility, retirement benefits, etc. He indicated that the term 'wage' is used to denote remuneration to workers doing manual or physical work. Thus, wages are given to compensate the unskilled workers for their services rendered to the organization. Wages may be based on hourly, daily, weekly or even monthly bases. According to DeNisi and Griffin (2001) compensation is a reward system that a company provide to individuals in return for their willingness to perform various jobs and tasks within organizations. They further stated that relevant and commensurate rewards need to be provided to the employees so that they feel valued and their expectations on exchanging their skills, abilities and contribution to the organization are met.

Compensation Administration as the name suggests, implies having a compensation structure in which the employees who perform better are paid more than the average performing employees (Hewitt, 2009). This encourages top-performers to work harder and helps to build a competitive atmosphere in the organization. Armstrong and Brown (2005) postulate that compensation administration is an integral part of HRM approach to managing people and as

such it supports the achievement of business objectives and it is strategic in the sense that it addresses long term issues relating to how people should be valued for what they want to achieve; It is therefore integrated with other HRM functions, especially those concerned with human resources development. Compensation administration is a segment of administration or human resource administration focusing on planning, organizing, and controlling the direct and indirect payments employees receive for the work they perform (Ezeh, 2014). Compensation includes direct forms such as base, merit, and incentive pay and indirect forms such as vacation pay, deferred payment, and health insurance.

### **2.1.2. Type of compensation**

Compensation can be financial or non-financial. Financial compensation is a direct compensation consists of the pay an employee receives in the forms of wages, salaries, bonus or commission. Indirect financial compensation or benefit consisting of all financial rewards those are not included in direct financial compensations. The financial benefits include pay for time not worked for (for example sick leave, vacation, and maternity leave), insurance benefits (for example job –related accidents and illness benefits), retirement benefits (for example pensions, profit sharing plans) and compensation or payment for services rendered (Dessler, 2008). The non-financial benefits may include employee service benefits (for example counseling, subsidized childcare, transport, meals etc.) and recognition for good performance. Employee compensation (benefits) can be mandatory and non-mandatory. Mandatory benefits are those required by law for example pensions and workers' compensation. Non-mandatory benefits include tuition refund, various discounts.

### **2.1.3. Financial compensation**

#### **2.1.3.1 Salary**

There are many factors of pay (Millvior and new man, 2005) research perform that may be form of individually and may be form of multiple performance pay plan different qualities can consider the efficient of degree to perform merit pay to performance, bonus long incentives first of all merit pay is form of reward and individual function of their individuals performance and rating. The pay plan is most common by employee performance appraisal and a number of recent survey 80 to 90 percent organizations use merit pay. Bounces pay is monetary reward gives to employee in addition to their fix compensation (Millovian & new man 2005). This pay plan in base on individual performance but bonuses does pay and their not performance (Suman & shout, 2000). Performance related pay directly impact on the workers' productivity creating the output through pay and workers has more able to give pay structure according to the performance (sheer, 2004). The role of employee performance linking to bounces to improve the productivity (Banded re et al, 2007).

#### **2.1.3.2. Incentives /Bonus/**

No one works for free, nor should they. While pursuing money based on negative motives can lead to a poorer psychological well-being, this is not the same as pursuing money to provide security and comfort for oneself and family. Obviously, employees want to earn fair wages and salaries, and employers want their workers to feel that is what they are getting. To that end, it is logical that employees and employers alike view money as the fundamental incentive for satisfactory job performance. The use of monetary or other financial incentives in the classic work performance paradigm is based primarily on reinforcement theory (Hoerr, 2000). Reinforcement theory, they explained, focuses on the relationship between a target

behavior (work performance) and its consequences (pay). This is premised on the principles and techniques of organizational behavior modification. Organizational behavior modification is a framework within which employee behaviors are identified, measured and analyzed in terms of their functional consequences (existing reinforcements) and where an intervention is developed using principles of reinforcement. In a much publicized study, Held (2001) analyzed thirty-nine studies conducted over four decades and found that cold-hard cash motivates workers whether their jobs are exciting or mundane, in labs and real world settings alike. However Held, (2001) acknowledges that money is not the only thing that concerns employees. He noted that beyond a certain point higher salaries will make employees happier, but it will not “buy” better performance. In another study Diener (2002) warned that employers who dole out small merit raises, less than 7% of base pay, may do more harm than good. According to her, small raises can actually be dysfunctional in terms of motivation because employees become irritated that their hard work yielded so little. As a result, she advises employers who must give small raises to be careful about linking them to results and to be scrupulous about being fair.

#### **2.1.4. Non-Financial compensation**

##### **2.1.4.1. Rewards and productivity**

Employees who are the most efficient are like to be they are motivate to perform medina (2002). this relationship mean that rewards and employee performance is expecting theory which means that employee are most to be motivated performance is more performance to receive the rewards and bonus. The rewards may be cash, recognition both to be acceptable that to achieve the targets they are performance is well suesi (2002) rewards is the key motive to increase the employee performance to expect well. Give the monthly rewards also increase

the performance Osterloh and Frey (2012). As Rizwan and Ali (2010) employees are extremely motivated to monthly rewards. Organizational rewards result motivated employee. Some other views that recognition in pleasanter the organization favorable works environment motivated the employee. Employee are the important part of any organization increasing the performance they can be motivated through financial and non-financial benefits they can designing that you can says that composition is reward which is receiving by the employee to show their performance. Good organization are maintain to design and enable the organizations to attract the highly skilled and qualified employee retain and motivation towards objective and goals. If the employees free that they have not getting good salary they cooking for better employee dissatisfaction with the compensation towards goal attainment towards goals done to be lower .Dissatisfied employee increasing the turnover, Absents and poor metal health (Welthel and Davis, 1996). Generally speaking the type of compensation and the relevance of the compensation benefits to the employee is very important. Richardson, (1999) Noted that the challenge for every organization and every manager in the organization is to satisfy each employee's personal needs. These needs they indicated included:

- (1) The need to belong (involvement);
- (2) The need for recognition (feedback and rewards); and
- (3) The need for growth.

In a similar, Richardson, (1999) indicated that most organizations lack effective incentive systems. According to him, the greatest motivational impact can be achieved when rewards are frequent, immediate, can be related to individual contribution, and of significant value to the employee. Richardson, (1999) Noted that typical profit sharing plans and merit salary increase plans are ineffective as employee motivators, since they fall short in all of these



areas. He explained that the employee may have great difficulty in seeing the link between the amount of the payout and his or her performance and the payout may be too small to be of significance. In most organizations, merit increases given to superior performances vary by only one or two percent from those increases given to average performers. This is a more symbolic than real recognition of the difference in skill and effort required achieving high levels of performance.

#### **2.1.4.2. Recognition and Productivity**

Recognition means acknowledging someone before their peers for specific accomplishments achieved, actions taken or attitudes exemplified through their behavior. Recognition and appreciation can also be combined as an approach to reward system in the form of a public statement of thanks in front of the employees, co-workers or team citing specific examples of what they've done that has positively impacted the organization. Jeffries, (1997) stated that organizations should retain their best employees by recognizing their contributions to the organization. She argues that recognition motivates employees as it involves the acknowledgement of the efforts, creativity and willingness of employees to put extra effort. According to Curran (2004) acknowledging employee's efforts more personally, more locally and more frequently through recognition can lift employee motivation and improve overall organizations morale. Private and public recognition are two of the most commonly used forms of recognition. Private recognition refers to a quiet thank you or a pat on the back while public recognition is more formal. It inspires loyalty and commitment as well as encouraging better standards of performance (Syedain, 1995). Public recognition is an important part of the reward as the performance of the individual affects more than just one employee stating publicly why the person receives recognition and how it links to the organization goals can act

as a motivator to other employees (Wiscombe, 2002). High performance organizations have always understood the importance of offering awards and incentives that recognize, validate and value outstanding work. Recognition programmes have the purpose of keeping employees motivated and productive and are seen to be effective methods of reinforcing company expectations and goals. Recognition and appreciation are integral Components of winning reward strategy. These two elements rarely receive the attention they deserve from business owners Wiscombe (2002).

#### **2.1.5. Effect of compensation administration**

Employees today are not willing to work only for the cash alone, they expect 'extra'. This extra is known as employee benefits. Also known as fringe benefits, Employee benefits are non-financial form of compensation offered in addition to cash salary to enrich workers' lives. Employee benefits as a whole have no direct effect on employee performance, however, inadequate benefits do contribute to low satisfaction level and increase absenteeism and turnover in employees (De Cenzo and Robbins, 2007). So you would have to carefully design your benefit package. Your package may include a cell phone to each worker, taking them to a training workshop or seminar, giving them a day or two off every month and so on. While deciding on the benefits package, do consider the associated costs. A well designed compensation and benefits plan helps to attract, motivate and retain talent in an organization. A well designed compensation & benefits plan will benefit a firm or business/employee in the following ways;

**1. Job satisfaction:** Employees would be happy with their jobs and would love to work for such an organization if they get fair compensations in exchange of their services.

**2. Motivation:** We all have different kinds of needs. Some of us want money so employees work for the company which gives them higher pay. Some value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plan that hits workers' needs is more likely to motivate them to act in the desired way.

**3. Low Absenteeism:** when worker's compensations are adequately managed, employees will have the zeal and enthusiasm to be regular at work instead of wasting time at home. Although some tend to stay idle at work place also, but when they are treated well they will offer value for it.

**4. Low Turnover:** employees will not be willing to work for any other organization as long as they are treated well and get their compensations at the right time and measure. So there will be a low rate of employee turnover.

The benefits of a good compensation package to employees are as identified:

**1. Peace of Mind:** your offering of several types of insurances to your workers relieves them from certain fears. Your workers as a result now work with relaxed mind.

**2. Increase in self-confidence:** Every human being wants his/her efforts to get acknowledgment. Employees gain more and more confidence in them and in their abilities if they receive just compensations. As a result, their performance level shoots up. Simply put, the elements of a total compensations program constitute all the things a business uses to attract employees, including salary, bonuses, incentive pay, benefits and employee growth opportunities such as professional development and additional training. This system provides a number of advantages to companies, particularly small businesses in which business owners and managers must foster positive personal relationships with employees.

### **2.1.6. Compensation and Productivity**

There are several factors that have been identified as influencing the productivity of employees. Compensation is one of the major factors that take the lion share for influencing productivity of employees in the production process. Effect of compensation on employees' productivity could be very strong in some organizations Stajkoric, (2006). Mohrman, (1996) Stated that good compensation for employees will be able to stimulate the emergence of fresh ideas and employees' innovation. With so many ideas from employees, it would be very useful for the company. In a similar study, he found that the existence of a good compensation of employees will make the health of employees also good. With the maintenance of health, the employee will get maximum performance opportunities. The number of working hours or employee present hours is able to obtain a maximum work performance. As a result, the planning process can be obtained with good production. They also noted that low compensation toward employees will trigger the employee to try to get their own business or side job. With the side business, it will disrupt the quality of employees' work and concentration. Low concentrations of certain employees have a negative impact on quality and quality of production of goods in the company. From these facts, it is clear that the influence of compensation on employee productivity is very strong. If it given more reasonable compensation to employees, the higher the productivity of employees. Conversely, if it given lower compensation for employees, the lower the productivity of the employee Stajkoric, (2006).

### **2.1.7. Methods used to determine employee's compensation**

According to Gomez et al. (2012), employee's compensation is the single most important cost in most firms, in some manufacturing organizations it accounts for 60% of the total cost.

However, this is even higher in some service organizations and this means that the effectiveness with which compensation is allocated can make a significant difference in gaining or losing the competitive edge. The same is echoed by Dessler (2008) who says that developing a good employee compensation plan is important for any organization and its employees. He continues to say that improperly developed compensation plan may result to a wage rate that is too high hence unnecessary expenses; while paying less may guarantee inferior employee quality and high employee turnover. At the same time internally inequitable wage rates reduce employee morale and cause endless complains from the employees. The most important aspect of any compensation plan is the relationship that exists between performance and reward (Nelson and Spitzer, 2003). For that reason, administration of compensation in any organization involves designing a cost effective pay structure that will attract, motivate and retain competitive employees (Decenzo et al, 2007). Armstrong (2008) also notes that one of the aims of reward management is to motivate people and obtain their commitment and engagement. According to Dessler (2008) there are several factors that affect the design of any compensation plan, these include, legal considerations, union influences, company policies and competitive strategic objective and lastly internal and external equity. To fully understand how any organizations determine its employee compensation plan one need to look at how employee compensation plans are categorized, the factors used to determine the compensation plans and the process of developing the compensation plans.

#### **2.1.8. Categorization of employee's compensation**

According to Dessler (2008) there are two broad ways of categorizing compensation, namely; Job-based approach and Skill-based approach. The Job-based approach is the most traditional and widely used type of compensation plan. According to Gomez et al. (2012) the plan

assumes that jobs are very well defined and titled, for example a cashier, a matron or a chef. The works in these jobs is done by people who are paid to perform them well. In this plan since all jobs are not equally important to the firm, the labour market puts greater value on some jobs than on others with the most important jobs paying the most. DeNisi and Griffin (2008) refers to this as pay-for-knowledge, which they describe as compensating employees for learning specific information. Milkovich et al. (2013) defines job-based approach, as paying an individual for the jobs they are assigned irrespective of skills they possess. The skill-based approach on the other hand assumes that workers should not be paid for the jobs they hold but for how capable they are at performing the task or multiple tasks (Gomez et al, 2012). The greater the variety of job-related skills one possesses the more they are paid. DeNisi and Griffin (2008) defines skill-based pay as rewards to employees for acquiring skills. Milkovich et al. (2013) defines skill-based approach as paying an individual for all the skills they have been certified regardless of whether the work they are doing requires all or just a few of those particular skills. From the definitions given by DeNisi and Griffins (2008), Gomez et al. (2012), and Milkovich et al. (2013), and in conjunction with an article by Neil Kokemuller of Demand Media in the Houston chronicles extracted from Compensation & Benefit review of September 1994, we can see that some of the advantages of Job-based pay, include simplicity of understanding and administration.

#### **2.1.9. Factors determining compensation Plan**

Whether an organization uses job-based or skill-based compensation plan, the main aim of the plan is to enable the organization achieve its strategic objectives (Gomez et al, 2012) and attract, motivate and retain competent employees (Decenzo et al, 2007). It is for these reasons that the plan is developed to fit the organizations unique characteristic and environment.

According to Gomez et al. (2012), the key factors to be considered when determining a compensation plan in any organization are; - Internal versus external equity. This refers to the perception of the plan to be fair within the company and relative to what other employers are paying, flexibility of the pay; whether the pay is fixed or variable, employee performance consideration in the plan; whether the plan pays for performance or for membership, value placed on the job versus individual skill, employee differentiation; whether all employees are treated the same (Egalitarianism) or treated differently (Elitism), motivation method; whether the plan motivates with monetary or non-monetary awards, employee compensation information accessibility to employees and finally the decision making process in the organization whether it is centralized or decentralized.

#### **2.1.10. Compensation responsibilities**

Compensation costs represent significant expenditures in most organizations. Although actual compensation costs can be easily calculated the value derived by employers and employees prove more difficult to identify. To administer these expenditure wisely, human resource specialists and other managers must work together. Typically division of human resource responsibilities compensation can be implemented through human resource unit are develop and administers the compensation system, conduct job evaluation and wage survey, develops wage salary structures and policies. Managers attempt to match performance and rewards recommended pay rates and increase based on guidelines from human resource unit evaluate employee performance for compensation purposes (Mathis and John H. Jackson, 2004, p-373).

## **2.2. Empirical literature review**

Aktar, Sachu and Ali (2012) examined the effect of compensation, learning opportunities, challenging work and career advancement. Extrinsic rewards (basic salary and performance bonus) on employee performance in twelve commercial banks of Bangladesh. The study found that each factor within both extrinsic and intrinsic rewards was highly significant factor which affects employee performance. In contrast the study conducted by Yasmeen, Farooq and Asghar (2013) on the impact of rewards on organizational performance in Pakistan revealed that there exists insignificant and weak relationship between salary, bonus and organizational performance. However it found that there exists moderate to strong relationship between promotion and organizational performance. Research by Eastman (2009) consistently found that intrinsic motivation is conducive to producing creative work, while extrinsic motivation is unfavorable to producing creative work. Gagne (2009) suggested a new model of knowledge-sharing motivation which provides suggestion for design five important human resource management (HRM) practices including staffing job design, performance and compensation system, managerial styles and training. Ali and Ahmed (2009) confirmed that there is statistically significant relationship between reward and recognition respectively; also motivation and satisfaction. Their study revealed that if rewards or recognition offered to employees were to be altered, then there would be a corresponding change in work motivation and satisfaction. Differences in institutional arrangements contribute to the feasibility and effectiveness of various monetary incentives, as do differences in employees' preferences for specific incentives McCollun, (2003). By this, companies are wise to study these issues before implementing changes to existing incentive plans. This is especially pertinent for service organizations, where financial reinforcements



tend to produce a stronger effect on task performance than non-financial rewards used alone Diener, (2002). To them, even stronger results are seen with a composite approach. In a similar study by Henema, (2003), one meta-analysis of 72 field studies found that monetary incentives improved task performance by 23%, social recognition improved task performance by 17% and feedback elicited a 10% improvement. Simultaneously combining all three types of reinforcements improved performance by 45%. Henema, (2003) however, suggested that group incentive systems are consistently effective in private sector settings. In general, the effectiveness of compensation is dependent on the characteristics of the reward system, the organization, the team and the individual team members he observed.

### 2.3. Conceptual Framework

The framework below summarizes the factors that the researcher employed in the study that sought to analyze variables of compensation and employee productivity. These factors are: The independent variables (Compensation) i.e. (Financial and Non-Financial) and the dependent variables employee productivity.

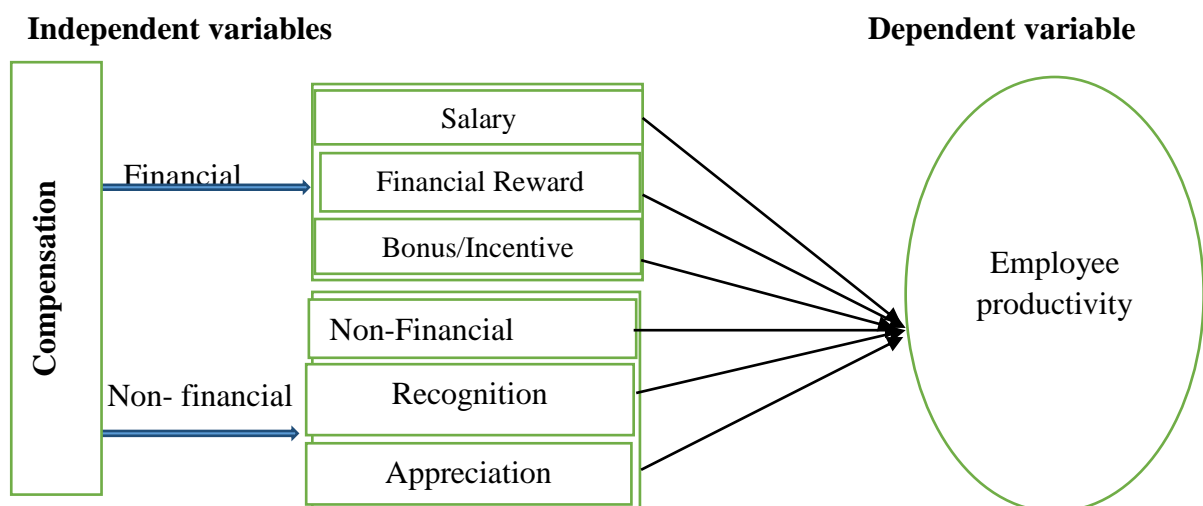


Figure 2.1. Research model

Source: Researcher

## **CHAPTER THREE: RESEARCH DESIGN & METHODS**

### **3.1 Research Design & Approach**

The research design enables the researcher to answer the basic research questions. According to Saunders (2009) showed that the choice of the research design depends on the objectives of the study, the available data sources, the cost of obtaining the data and availability of time. This study applied both descriptive and explanatory type of research design; in order to describe & explain the factors that affect employee productivity & the relationship between variables that correlate to estimate the integrated effects of compensation on productivity. A qualitative and a quantitative approach of data collection will applied so as to compensate each methods weakness with strength from the other approach. In designing of the instrument questioner is composed of a five point likert scale questions were constructed, the type of scales used to measure the items on the instrument was continues scales (strongly agree to Strongly disagree) and multiple choice and interviews questions are also developed in the consultation with literature and advisor comment. This design is adopted to enable the researcher gather information from a group targeted sample that is part of the main population of Kality Foods manufacturing factory. The sample comprises management staff, senior (non-management) staff, middle level staff and junior staff. The objective is to be able to capture some characteristics such as perceptions, and to make relevant inferences from the data collected representative of the entire population.

### **3.2 Population and Sampling**

#### **3.2.1. Target Population of the study**

The target population of the study is the entire employee of Kality Foods manufacturing factory. The total populations of the study are 368 employees which are composed of all

departments, which are spread across the management level, senior non-management staff, middle level staff and junior staff.

### 3.2.2. Sampling Technique& sample size

According to Mugenda (2003), a sample of 20 - 30% is good enough if samples are well chosen from the elements for definite population. Hence a sample size of 30% of the total population were used in this study. To make representative of the total population of the Kality Foods manufacturing factory employee list will take from HR department based on their departments (General Administration Department, Production and Technique Department, Logistic and supply Department, Finance Department, Marketing Department). From the total population of 368 employees of the factory by considering Confidence level of 95% and 5% margin of error 110 employees are selected as a sample based on Stratified Sampling procedure as mention below. The formula which shows the relation between the total population and the sample size is shown below and this was used as indicated by the table to determine the actual sample (source: <http://en.wikipedia.org/wik>)

$$n_n = n/N \times N_n$$

Where n = sample size

$N_n$  = the size of a stratum

$n_n$  = sample from a stratum

$N$  = total population

Table 3.1 Sample of population

| Population                  | Sample size (n) | %    | Sample From Stratum ( $N_n$ ) |
|-----------------------------|-----------------|------|-------------------------------|
| Management Staff            | 9               | 2.4  | 3                             |
| Senior non-management staff | 58              | 15.8 | 17                            |
| Middle level staff          | 83              | 22.6 | 25                            |
| Junior Staff                | 218             | 59.2 | 65                            |
| TOTAL                       | 368             | 100  | 110                           |

Source: KFMF HR employee list

### **3.3 Data Collection Tools and Procedures**

#### **3.3.1. Data Collection Procedures**

After getting the approval of the proposal, cooperation request letter is taken from the respected department or dean office of AASTU; to Kality foods manufacturing factory. After permission get to collect relevant data from the Kality foods manufacturing factory. The researcher then secured an appointment with the concerned department heads and staffs to distribute and collect data to conduct interview and focus group discussions.

#### **3.3.2. Data Collection Tools**

The study was conducted through the collection of both primary and secondary data. With regard to primary data, the data collected through questionnaire filled by the existing employees of the organization and interview conducted with department heads of the factory. Interviews enabled the key informants to express themselves and provide in-depth data and make clarifications where ever necessary. Secondary data are obtained through the review of the organization's Manual and labor agreement, books, journals, previous researches, websites and other available sources.

### **3.4. Data Analysis and Presentation**

Data collected from questionnaires were analyzed by using SPSS 20.0 version. Both descriptive and inferential statistics are employed to analysis data; descriptive statistics such as frequency and percentage are used to describe the respondents' characteristics. Regarding inferential statistics, correlation analysis is used to show the degree of the relationship between independents and dependent variables. And also the researcher used regression analysis to show the effect of independent variables on dependent variable.

### 3.5. Variables and Measurement

The questionnaire is one of the main tools for collecting data from respondents in the study. In this study the questionnaire is a three-page questionnaire which is divided into two sections and all sections of the questionnaires will develop in English language.

### 3.6. Reliability and Validity

#### Reliability

The reliability test is an important instrument to measure the degree of consistency of an attribute which is supposed to be measured. Cronbach's alpha is one of the most commonly accepted measures of reliability. It measures the internal consistency of the items in a scale. It indicates that the extent to which the items in a questionnaire are related to each other. According to (Bhattacharjee, 2012). Cronbach alpha is a coefficient of reliability and it is commonly used as a measure of the internal consistency or reliability. For testing the reliability of the data instrument, Cronbach's alpha was calculated to test the reliability of the research instrument as follows.

Table 3.2. Reliability test result

| Variables           | Cronbach's Alpha | N of Items |
|---------------------|------------------|------------|
| Financial           | .881             | 8          |
| Non-Financial       | .743             | 10         |
| Productivity        | .915             | 7          |
| Overall reliability | .810             | 24         |

Filed survey 2018

#### Validity

Regarding to validity, validation of questionnaire item were carried out through initial consultation of advisor and peers to judge the research instrument. The researcher were use

construct validity, because of more accurate and meaningful results and the extent to which a measure adequately represents the underlying construct that it is supposed to measure and to ensure that the information which is requested from the respondent covers all relevant areas and the objectives of the research (Bhattacharjee, 2012). To increase the validity of the data collected using questionnaire & interview the researcher seeks the data based on the objectives of the research. In addition, the researcher ensured that the interview questions were not leading. The interview question is viewed by peers and supervisors who offered objective suggestions on areas to improve on.

### **3.7 Ethical consideration**

The researcher explains to the respondents about the research study and confirms that their information can only be used for academic purposes. The researcher made clear that the participation is voluntary and that the respondents will be free to decline or withdraw from participation any time during the research period. Respondents would not be coerced into participating in the study. The participants would have signed informed consent to make the choice to participate or not. They would be guaranteed that their privacy is protected by strict standards of anonymity.

## CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRITATION

### 4.1. Introduction

This chapter presents the results of the various indicators of employee productivity of Kality Foods Manufacturing Factory and their respective compensation variables. The study selected employee productivity as the measure of the factory productivity. On the other hand financial, &non-financial were used as the measure of compensation package of the factory for the study. Of the 110 questionnaires distributed, 105 filled questionnaires were collected. Of which, one overrated responses (5 on all measure) and one underrated response paper (rating of 1 & 2 for all measure) were identified and three questionnaires are not able to return. Therefore, the researcher has excluded these responses and lowering the number of filled questionnaire to 105 which gives a response rate of 95.5%.

### 4.2. Demographic characteristics of Respondents

This section summarizes the demographic characteristics of the sample, which includes age of the respondent, gender, education level, work experience, respondent department. The purpose of the demographic analysis in this research is to describe the characteristics of the sample such as the proportion of males and females in the sample, range of age, education level, respondent department and service year, so that the analysis could be more meaningful for readers.

Table 4.1 Gender of respondent

| Gender |        | Frequency | Percent | Cumulative Percent |
|--------|--------|-----------|---------|--------------------|
| Valid  | Male   | 42        | 40.0    | 40.0               |
|        | Female | 63        | 60.0    | 100.0              |
|        | Total  | 105       | 100.0   |                    |

Filed Survey 2018

As shown in table 4.1 the gender distribution of respondents in the company indicates that 60% (63) were females were as the 40% (42) were males. This implies that females outweigh males in the job opportunities for this factory.

Table 4.2. Age distributions of respondents

| Age Categories | Frequency | Percent | Cumulative Percent |
|----------------|-----------|---------|--------------------|
| Under 25       | 9         | 8.6     | 8.6                |
| 26-40          | 69        | 65.7    | 74.3               |
| Valid 41-60    | 20        | 19.0    | 93.3               |
| Over 60        | 7         | 6.7     | 100.0              |
| Total          | 105       | 100.0   |                    |

Filed survey 2018

Out of the total respondents, 8.6% (9) of them are between the ages under 25 years, 65.7% (69) of the respondents are found between the ages 26-40 years, 19%(20) of the respondents are 41-60 years and the rest 6.7% (7) are above the age of 60 years. This data shoes that majority of the employee 93.3% (98) employees are between young and adult age who have the potential to increase the productivity of the factory.

Table 4.3. Education level of the respondent

| Education                    | Frequency | Percent | Cumulative Percent |
|------------------------------|-----------|---------|--------------------|
| Below 10 <sup>th</sup> grade | 25        | 23.6    | 23.8               |
| Certificate                  | 23        | 21.7    | 45.7               |
| Diploma                      | 37        | 34.9    | 81.0               |
| Degree                       | 13        | 12.3    | 93.3               |
| Master & above               | 7         | 6.6     | 100.0              |
| Total                        | 105       | 100.0   |                    |

Filed survey 2018



Table 4.3 shows that only 23.6% (25) of the respondents are below 10<sup>th</sup> grade, 21.7% (23) of the respondents have Certificate, 34.9%(37) the respondents have diploma, 12.3% (13) have 1<sup>st</sup> degree and the remaining 6.6% (6.6) of the respondent have master's degree and above. From this data majority of the employees (81%) 85 in the factory have an academic qualifications of diploma & below diploma. This shows that KFMMF requires different manpower development program to improve the productivity & service quality of the factory employees.

Table 4.4 Respondent service year at KFMMF

| Service year | Frequency | Percent | Cumulative Percent |
|--------------|-----------|---------|--------------------|
| < 5 years    | 61        | 58.1    | 58.1               |
| 5-10 years   | 25        | 23.8    | 81.9               |
| 10-15 years  | 10        | 9.5     | 91.4               |
| 15-20 years  | 6         | 5.7     | 97.1               |
| 20 years     | 4         | 3.8     | 100.0              |
| Total        | 105       | 100.0   |                    |

Filed survey 2018

As we have seen in table 4.4. the respondent service year in KFMMF out of the total 58.1% (61) have served in the factory less than five year, 23.8% (25) of the respondents served between 5-10years,9.5% the respondent serve the factory 10-15 years, 5.7% (6) the respondent serve the factory 15-20 years and the least percentage of respondents who served the factory are above 2 years. From the above table we can conclude that near to 60% of the respondent serve the factory below 5 years.

Table 4.5 Departmental category of Respondent

|       | Department              | Frequency | Percent | Cumulative Percent |
|-------|-------------------------|-----------|---------|--------------------|
| Valid | Administration          | 5         | 4.8     | 4.8                |
|       | Production              | 62        | 59.0    | 63.8               |
|       | Technique               | 16        | 15.2    | 79.0               |
|       | Marketing               | 13        | 12.4    | 91.4               |
|       | Logistics & procurement | 8         | 7.6     | 99.0               |
|       | Finance                 | 1         | 1.0     | 100.0              |
|       | Total                   | 105       | 100.0   |                    |

Filed survey 2018

As we have seen from table 4.5; 4.7% (5) of the respondent are administration workers, 59% (62) of the respondents are production workers, 15.1% (16) of the respondents are technique workers and the remaining 7.5% (8) and 1% (1) are logistics and finance respectively. From this we can see as the chance the study concentrate on the core process workers which are the back bone of the factory.

#### 4.3. Factors that determine employee compensation Package at KFMM

Respondents are asking the factors that determine employee compensation package at KFMM and their responses are presented on the following table.

Table 4.6. Factors that determine the compensation package at KFMM

| S.No  | Rank the Factors that determine the compensation package at your company | Frequency | percentage | Rank |
|-------|--------------------------------------------------------------------------|-----------|------------|------|
| 1     | Job or position of employee                                              | 54        | 51.4       | 1    |
| 2     | Performance of employee                                                  | 20        | 19.04      | 2    |
| 3     | Skill and knowledge                                                      | 9         | 8.6        | 4    |
| 4     | Educational qualifications of employees                                  | 15        | 14.3       | 3    |
| 5     | Collective agreement with unions                                         | 5         | 4.76       | 5    |
| 6     | Others specify .....                                                     | 2         | 1.9        | 6    |
| Total |                                                                          | 105       | 100        |      |

Source: Survey data, 2018

As we have seen from table 4.6, 51.4% (54) respondents indicated the job or position of employees is seriously considered in determining the package. Others also said the package was based on employee performance 19.04% (20), educational qualification of employees are considered as third rank 14.3% (15), skills and knowledge hold at the fourth stage 8.6% (9), and the collective agreements with unions 4.76% (5). Though not very well represented, some respondents were of the view that compensation was based on who one knows in management positions 1.9% (2). From the interview analysis we can understand that KFMM there are different factors that affect employee compensation package basically the overall performance (profitability) of the company, position of the employee, annual performance of employee and skill of employee are the basic factors that affect employee compensation at KFMM.

#### **4.4. Level of satisfaction with compensation and readiness to increase productivity**

Respondents are asking on the company compensation package satisfaction level and their readiness to boost productivity and their responses are presented on the following table.

Table 4.7 Level of satisfaction with compensation and readiness to increase productivity

| No | Item                                                                                          | Response rate |            |
|----|-----------------------------------------------------------------------------------------------|---------------|------------|
|    |                                                                                               | Frequency     | percentage |
| 1  | Are you satisfied by the company's Compensation package and ready to boost your productivity? |               |            |
|    | yes                                                                                           | 48            | 45.7%      |
|    | No                                                                                            | 57            | 54.3%      |
|    | Total                                                                                         | 105           | 100        |

Filed survey 2018

As we have seen from table 4.7, concerning the company's compensation package satisfaction level and readiness to boost their productivity when respondents are asking; 45.7 % (48) respondents said that, they are satisfied by the company's compensation package and they are ready to boost their productivity but more than half i.e. 54.3% (57) respondents said that they

are not satisfied by the company's compensation package and not ready to boost their productivity. This implies that, the company compensation package is not properly satisfying the company's employees and it is not achieved its objective.

#### **4.5. Mechanisms of managing compensation**

In different time the company uses different tools to improve the performance and productivity of the employee in department wise and the company level even though it is not consistent. And KFMMF uses performance evaluation, amount of waste, down time amount, quantity of production, amount of sales and gross profit are used as tolls of managing compensation for its employees.

Employee performance are done twice a year by evaluation committee and production departments also evaluate their employees as per daily production capacity and design capacity of the machines they do from department plan point of view and technique departments are also conduct evaluation from the maintenance program plan and amount of down time for maintenance of machines, marketing department also evaluate by the statted amount of sales product and revenue generated and also other departments like store, finance, general service and administration also evaluate their performance with respect to their department setting objective and then based on the above tools grading are given to employees to get the assign benefit using these tools in the company to improve performance and productivity and also there is procedures for those who got the performance evaluation below 2 point out of 5 warning letter is giving from the department manager through human resource manager to improve the performance for next period.

#### **4.6. Methods Used to Determine Employee's Compensation**

To establish the methods used to determine employees compensation at Kality Foods Manufacturing Factory. The respondents were required to give their opinions on a likert scale by ticking option 1 for Strongly Agree to 5 for Strongly Disagree.

##### **4.6.1 Employee Compensation Constitutes a Significant Portion of the Company's Costs**

The employees were asked if employee's compensation constituted a significant portion of the organization cost and employee are answered as follows.

Table 4.8. Employee Compensation Constitutes a Significant Portion of the Company's Costs

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 12        | 11.4       | 11.4                  |
| Agree             | 65        | 61.9       | 733                   |
| Not sure          | 25        | 23.8       | 92.3                  |
| Disagree          | 3         | 2.9        | 100                   |
| Strongly disagree | 0         | 0          |                       |
| Total             | 105       | 100        |                       |

Filed survey 2018

Table 4.8 findings showed that 11.4 % (12) of the respondents strongly agreed that employee compensation is significant importance, 61.9 % (65) agreed, 23.8% (25) were not sure, 3% (2.9) disagreed and none strongly disagreed that the compensation package of KFMFSCo. Constitute significant portions of cost as illustrated in Table 4.8.

##### **4.6.2. Employee's Compensation Plan is well formulated**

Employees of KFMFSCo. Were asked whether the compensation plan is well formulated or not and they answered as follows.

Table 4.9. Employee's compensation plan is well formulated

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 6         | 5.7        | 5.7                   |
| Agree             | 43        | 40.9       | 46.6                  |
| Not sure          | 28        | 26.7       | 73.3                  |
| Disagree          | 25        | 23.8       | 97.1                  |
| Strongly disagree | 3         | 2.9        | 100                   |
| Total             | 105       | 100        |                       |

Filed survey 2018

The respondents were asked if they believed that compensation plan in the company was well formulated to cover all aspects of employee compensation. The findings captured in table 4.9 showed that 5.7% (6) of the respondents strongly agreed that employee compensation plan is well formulated, 40.9% (43) agreed, 26.7% (28) were not sure, 23.8% (25) disagreed and 2.9% (3) strongly disagreed.

#### 4.6.3 Pay Structure Ensures Internal Equity

Table 4.10. Pay Structure Ensures Internal Equity

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 6         | 3          | 3                     |
| Agree             | 43        | 22         | 25                    |
| Not sure          | 28        | 43         | 78                    |
| Disagree          | 25        | 27         | 95                    |
| Strongly disagree | 3         | 5          | 100                   |
| Total             | 105       | 100        |                       |

Filed survey 2018

The respondents were asked whether they believed that the pay structure in the company ensured there was internal equity between employees in the organization. Only a 3% (6) of the respondents strongly agreed that the pay structure ensures there was internal equity. 22%

(43) agreed and 43% (28) were not sure. Those who disagreed and strongly disagreed were 27% (25) and 5% (3) respectively.

#### **4.6.4. Pay Structure Ensures External Equity**

Concerning the pay structure, when respondents are asked whether it ensures the external equity or not in KFMFSCo. there feedback was presented follows

Table 4.11. Pay structure ensures external equity

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 4         | 3.8        | 3.8                   |
| Agree             | 28        | 26.7       | 30.5                  |
| Not sure          | 39        | 37.1       | 67.6                  |
| Disagree          | 25        | 23.8       | 91.4                  |
| Strongly disagree | 9         | 8.6        | 100                   |
| Total             | 105       | 100        |                       |

Filled survey 2018

Table 4.11 presents whether employees believed that the pay structure in the company ensured there was external equity between employees in the organization and other employees in other organizations. The findings indicated that only 3.8% (4) of the respondents strongly agreed while 26.7% (28) agreed. 37.1 % (39) of the respondents were not sure. A response of 23.8% (25) and 8.6% (9) was received for disagreeing and strongly disagreeing respectively.

#### **4.6.5. Jobs are well defined**

The respondents were asked if they believed that their jobs were well defined or not and the result of their responses are presented as follows.

Table: 4.12. Jobs are well defined

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 24        | 22.8       | 22.8                  |
| Agree             | 74        | 70.5       | 93.3                  |
| Not sure          | 6         | 5.7        | 99.1                  |
| Disagree          | 1         | 0.9        | 100                   |
| Strongly disagree | 0         | 0          |                       |
| Total             | 105       | 100        |                       |

Filed survey 2018

Concerning whether or not the jobs are well defined respondents are responded their opinion as follows; 22.8% (24) of the respondents strongly agreed that their jobs were well defined, 70.5% (74) agreed, 5.7% (6) were not sure, 0.9% (1) disagreed and none strongly disagreed. From this we can conclude that the jobs are well defined in KFMFSCo.

#### **4.6.6 Employees are adequately compensated for the Use of Skills**

Table 4.13: Employees are adequately compensated for the use of skills

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 0         | 0          | 0                     |
| Agree             | 66        | 62.8       | 62.8                  |
| Not sure          | 9         | 8.6        | 71.4                  |
| Disagree          | 30        | 28.6       | 100                   |
| Strongly disagree | 0         | 0          |                       |
| Total             | 105       | 100        |                       |

Filed survey 2018

When employees asked if they believed that they were adequately compensated for the use of skills in their jobs. There was no response for strongly agreeing and strongly disagreeing. However 62.8% (66) agreed while 8.6 % (9) were not sure. Those who disagreed were 28.6 % (30) as illustrated in the above table. From this we can conclude that majority of the



respondent believed that the company don't compensated for their skills used in their jobs. The interview analysis also supported the majority of the respondent answer. Even if the company compensation package manual holds different package for its employees the company do not provide it, to its employees in reality due to the company financial position and long term consequences; as the result the employees do not satisfy but still they think that they are better in providing of compensation package to their employees as compared to other area industry.

#### **4.6.7. Incentives for Gaining New Skills or Knowledge**

Concerning for the incentive of gaining new skills or knowledge respondents forwarded their opinions as follows.

Table 4.14 Incentives for gaining new skills or knowledge

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 2         | 1.9        | 1.9                   |
| Agree             | 17        | 16.2       | 18.2                  |
| Not sure          | 9         | 8.6        | 26.8                  |
| Disagree          | 50        | 47.6       | 74.4                  |
| Strongly disagree | 27        | 25.6       | 100                   |
| Total             | 105       | 100        |                       |

Filed survey 2018

When respondents are asked whether the respondents believed that their Jobs offered incentive for gaining new skills or knowledge; 1.9% (2) of the respondents strongly agreed and 16.2% (17) agreed. 8.6% (9) of the respondents were not sure. Those who disagreed and strongly disagreed were 47.6% (50) and 25.6 % (27) respectively. From this we can conclude that more than 72 % (77) of the respondent's agreed that the company do not offer for gaining of new skills and knowledge they use.

#### **4.6.8. Employee compensation decisions are centrally managed**

When respondents are asked whether or not employee compensation decisions are centrally managed their opinion are presented as follows.

Table 4.15. Employee compensation decisions are centrally managed

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 29        | 27.7       | 27.7                  |
| Agree             | 40        | 38.2       | 65.9                  |
| Not sure          | 15        | 14.2       | 80.1                  |
| Disagree          | 20        | 19         | 99.1                  |
| Strongly disagree | 1         | 0.9        | 100                   |
| Total             | 105       | 100        |                       |

Filed survey 2018

The respondents were asked to confirm that all decisions relating to their compensations were centrally managed. As presented the findings. 27.7% (29) of the respondents strongly agreed while 38.2% (40) agreed, 14.2% (15) were not sure, 19% (20) disagreed and 0.9% (1) strongly disagreed and from this we can conclude that more than 65 % (69) believed that the company compensation is managed centrally.

#### **4.6.9. Salary surveys are conducted before determining new salaries**

This question sought to establish if a thorough survey of salaries was conducted before determining new salaries.

Table 4.16. Salary surveys are conducted before determining new salaries

| Level             | Frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Strongly Agree    | 12        | 11.4       | 11.4                  |
| Agree             | 6         | 5.7        | 17.1                  |
| Not sure          | 48        | 45.7       | 62.8                  |
| Disagree          | 26        | 24.7       | 87.5                  |
| Strongly disagree | 13        | 12.5       | 100                   |
| Total             | 105       | 100        |                       |

Filed survey 2018

Table 4.16 indicated that 11.4% (12) of the respondents strongly agreed that a thorough survey is conducted, 5.7% (6) agreed, 45.7% (48) were not sure, 24.7% (26) disagreed and 12.5% (13) strongly disagreed .From this we can conclude that near to half of the respondent are not sure whether salary surveys were conducted before determining new salaries study or not.

#### **4.7. Effect of compensation on employee productivity**

In order to see the general perception of the respondents regarding the selected effect of compensation on productivity in the subject organization, the researcher has summarized the measures with the respective means and standard deviations. Thus, the mean indicates to what extent the sample group averagely agrees or does not agree with the different statements. The lower the mean, the more the respondents disagree with the statements. The higher the mean, the more the respondents agree with the statement. On the other hand, standard deviation shows the variability of an observed response from a single sample Marczyk, Dematteo and Festinger (2005).The mean values are presented in table 4.16, together with standard deviation values for each variable.

Table 4.17. Employee compensation and productivity

| Variables              | N   | Minimum | Maximum | Mean | Std. Deviation |
|------------------------|-----|---------|---------|------|----------------|
| Financial compensation | 105 | 2.63    | 3.88    | 3.22 | .35            |
| Non-financial          | 105 | 2.88    | 4.88    | 3.95 | .42            |
| Employee productivity  | 105 | 1.00    | 2.00    | 1.22 | .32            |
| Valid N (list wise)    | 105 |         |         |      |                |

Filed survey 2018

The above descriptive statistics clearly depicts the corresponding arithmetic mean and standard deviation of every variables. Thus, financial compensation has a mean of 3.22 and a standard deviation of 0.35, Non-Financial Compensation has a mean of 3.95 and a standard

deviation of 0.42 and productivity of employee has a mean value of 1.22 and standard deviations of .32 which shows that employee productivity are below the average cut-off point of three; which is exactly 1.22. Based on this result; it is possible to conclude that the company's motivational schemes is not attractive, employees work productivity which will have an adverse effect on achieving its strategic goals and profit.

#### **4.8. Correlation between compensation package (FC & NFC) and employee productivity**

Prior to regression result, it is important to check the correlation between different variables on which the analysis is built. Pearson's Correlation analysis is also being conducted in order to determine on the relationship between the independent and dependent variables such as financial compensation, non-financial compensation and employee productivity.

Table 4.18. Correlation between the compensation package and employee productivity

| Variables                  |                     | Financial compensation | Non-financial compensation | Employee productivity |
|----------------------------|---------------------|------------------------|----------------------------|-----------------------|
| Financial compensation     | Pearson Correlation | 1                      |                            |                       |
|                            | Sig. (2-tailed)     |                        |                            |                       |
|                            | N                   | 105                    |                            |                       |
| Non-financial compensation | Pearson Correlation | -.150                  | 1                          |                       |
|                            | Sig. (2-tailed)     | .127                   |                            |                       |
|                            | N                   | 105                    | 105                        |                       |
| Employee productivity      | Pearson Correlation | .904**                 | -.151                      | 1                     |
|                            | Sig. (2-tailed)     | .000                   | .124                       |                       |
|                            | N                   | 105                    | 105                        | 105                   |

\*\*. Correlation is significant at the 0.01 level (2-tailed).

Filed survey 2018

Table 4.18 Tell us the level of correlation coefficient of each variables with compensation package and their relationship between and among variables. Financial compensation and

employee productivity have a strong positive relationship with employee productivity at significance level of 0.01 which ( $r = .904, p < .001$ ).

Non-financial compensation and employee productivity have weak negative insignificant relationship with employee productivity at significance level of 0.01 which is ( $r = -.151, p = .124$ ). In general the Pearson's Correlation Coefficient Matrix table 4.18 indicates that employee productivity has strong positive significant relationship with financial compensation package and weak negative insignificant relationship with non-financial compensation.

#### **4.9. Regression Analysis Result**

A major weakness of Pearson Correlations is that they do not allow identifying causes from consequences. To overcome this shortcoming, the researcher use regression analysis to investigate the effect of independent variables (compensation package) which comprised of Financial & Non-financial. To minimize the influence of potential violations, regression assumption are tested (normality, linearity, homoscedasticity and independence of residuals) by examining the normal probability plot (P-P) of the regression standardized residual and the scatter plot of the standardized residuals for all the four dependent variables and there was no serious violation of the normality assumption for employee productivity model. The value of F test explains the overall significance of a model. It explains the significance of the relationship between dependent variables and all the other independent variables. (Anderson et al. 2007). There is a rule of thumb which can be used to determine the  $R^2$  value as follows:  $< 0.1$ : poor fit, 0.11 to 0.30: modest fit, 0.31 to 0.50: moderate fit,  $> 0.50$ : strong fit (Muijs, 2004, p. 166). To evaluate the study models, the value of  $R^2$  has been considered to determine the amount of variance in the dependent variables which is explained by all variables in the formula (Pallant, 2007, p.158). As the B coefficients have different scales, the absolute value

of Beta parameter under Standardized Coefficients is used in order to compare and determine the influence of independent variables on the dependent variable (Muijs, 2004, p. 167). The Significant value is used to measure the statistic significant unique contribution of each independent variable to the formula (Pallant, 2007, p.159).

#### **4.9.1. The effect of compensation package on employee productivity**

The effect of compensation package on employee productivity is analyzed using linear multiple regression method with a two-tailed significance level of 5% ( $\alpha = .05$ ) and the result is analyze and interpreted based on (table 4.19) for the model.

Table 4.19. Model Summary

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .904 <sup>a</sup> | .817     | .813              | .137                       |

a. Predictors: (Constant), Non-financial compensation, Financial compensation

Source: SPSS result

Linear multiple regression was calculated to predict employee productivity Model; it had the ability to predict the employee productivity significantly,  $F(2,102) = 227.54$ ,  $p < .000$ , with  $R^2$  of .817. This indicate that the model is strong fit with the predictor variables (Non-financial, & Financial compensation) accounted for 81.7% of the variance in employee productivity are well explained and the remaining 18.3% of the variation in the dependent variable is explained by other variables which is not included in this study.

Table 4.20. Anova<sup>a</sup> test

| Model        | Sum of Squares | df  | Mean Square | F       | Sig.              |
|--------------|----------------|-----|-------------|---------|-------------------|
| 1 Regression | 8.540          | 2   | 4.270       | 227.545 | .000 <sup>b</sup> |
| Residual     | 1.914          | 102 | .019        |         |                   |
| Total        | 10.454         | 104 |             |         |                   |

a. Dependent Variable: Employee productivity

b. Predictors: (Constant), Non-finance compensation, Financial compensation

Filed survey 2018

Table 4.21. Coefficients

| Model                       | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-----------------------------|-----------------------------|------------|---------------------------|--------|------|
|                             | B                           | Std. Error | Beta                      |        |      |
| (Constant)                  | -1.404                      | .195       |                           | -7.211 | .000 |
| 1 Financial compensation    | .828                        | .039       | .901                      | 21.032 | .000 |
| Non- financial compensation | -.012                       | .033       | -.016                     | -.377  | .707 |

a. Dependent Variable: Employee productivity

Filed survey 2018

For Model 1 Linear regression was calculated to predict employee productivity; it had ability to predict employee productivity significantly,  $F(2,102) = 227.54$ ,  $p < .000^b$ , with an  $R^2$  of .817. This indicates that the model is strong fit with the predictor variables (financial compensation and non-financial compensation) accounted for 81.7% of the variance in employee productivity well explained. In the Employee productivity model, Financial compensation were statically significant with ( $\beta = .901$ ,  $p = .000$ , and similarly Non-Financial compensation has statistically insignificant with ( $\beta = -.016$ ,  $p = .707$ ) (Table 4.21).

The predictive model is:

$$\text{Employee Productivity} = -1.404 + .901(\text{financial compensation}) + .195$$

From table 4.20, the employee productivity model, we can see that, when the financial compensation package increased by 1 unit of standard deviations then the employee productivity will improve by .901 unit of standard deviations if other factor remain the same and if we improve the Non-financial compensation by 1 unit of standard deviations then the

employee productivity will decrease by .016 unit of standard deviation if other factor remain the same. Generally speaking from the above model we can see that employee productivity is affected by financial compensation positively and non-financial compensation negatively respectively.



## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

In this section conclusions were made based on the findings and relevant recommendations have been given.

### **5.2 Summary of findings**

- ✓ The gender distribution of respondents in the company indicates that 60% (63) were females were as the 40% (42) were males.
- ✓ Majority of the employee near to 93.3% (98) employees are between young and adult age that have the potential to increase the productivity of the factory.
- ✓ Majority of employees (81%) in the factory have diploma & below diploma academic qualifications which requires different manpower development program to improve the productivity & service quality of the factory employees.
- ✓ Service year of respondents tell us near to 60% of the respondents are serve the factory below 5 years.
- ✓ In determining of employee compensation Package at KFMM employees ranked the job or position of employees ,employee performance, educational qualification of employees, skills and knowledge, collective agreements with unions &some respondents were of the view that compensation was based on who one knows in management positions got the rank from one to six respectively.
- ✓ The satisfaction level of compensation package and readiness to boost their productivity shows majority of the employee 54.3% (57) are not satisfied and ready to boost their productivity.

- ✓ In general the Pearson's correlation coefficient matrix indicates employee productivity has strong positive significant relationship with financial compensation package and insignificant and weak negative relationship with non-financial compensation package.
- ✓ Concerning effect of compensation package on employee productivity regression analysis shows that financial compensation were statically significant with ( $\beta = .901, p = .000$ , and similarly Non-financial compensation has statistically insignificant with ( $\beta = -.016, p = .707$ ).

### **5.3 . Conclusions**

- ✓ Despite of the fact that there are different factors that determine employee compensation package at Kality foods manufacturing factory basically the overall performance (profitability) of the company, position of the employee, annual performance of employee and skill of employee are the basic factors that affect employee compensation at KFME.
- ✓ Majority of the employees 54.3% (57) in kality foods manufacturing factory do not satisfied by the company compensation package and the benefit getting from the company; the interview analysis from the top management support that even though the compensation package manual is good enough, the company is not able provide the benefits as per the manual consequently employees are dissatisfied and not ready to boost their productivity; hence the company productivity and profitability are affected by the compensation package. Since employers need to offer their employees a compensation package that would enable them attract, retain and motivate employees. This study shown that compensation has a direct influence on employee

productivity. However, this can be achieved if there is transparency in the reward system and if the rewards or compensation meets the aspirations of the beneficiaries. Hopefully, the results of this study will enhance the understanding of management on issues bordering on the perception of employees about compensation and productivity and help managers in developing policies related to these issues

- ✓ Compensation at Kaliti foods manufacturing factory are tried to manage using by different mechanisms to improve the performance and productivity of the employee in department wise and the company level; even if is not consistent, the first tools which are used to manage are evaluation performance twice a year through evaluation committee and others are for factory workers, amount of waste and quantity of product produced and down time recorded are used as tools for managing of compensation to increase employee labour productivity.
- ✓ Employee productivity has strong positive significant relationship with financial compensation ( $r = .904$ ,  $P < .001$ ) but employee productivity also have negative and weak insignificant relationship with non-financial benefit ( $r = -.151$ ,  $p = .124$ ); hence the company need to identify the relationship of benefit with employee productivity.
- ✓ Regression analysis also shows that financial compensation have significant and positive effect on employee productivity ( $\beta = .901$ ,  $p < .001$ ) but the non-financial compensation have negative insignificant effect on employee productivity ( $\beta = -.016$ ,  $P = .707$ ).

#### **5.4. Recommendations**

The following recommendations are forwarded to the KFMP based on the findings in the study.

### **On the Methods of Determining Employee's Compensation**

- ❖ Since compensation have a positive and significant effect on employee productivity, the factory top management should review periodically the compensation package of the factory, increase the awareness & the understanding of the package for its employee and put the compensation package manual in accessible place to all employee to improve the transparency & build confidence to its employees.

### **Direct Financial Payments and Employee's productivity**

- ❖ High awareness of existence of basic and other additional payment, only a small population was interested with their basic pay and the overwhelming positive response on employee productivity improving as a result of change in basic pay. The researcher recommended that a proper salary survey and job evaluation vis-a-vis total rewards received to be commissioned in a bid to ensure there is internal and external equity in the organization and that compensation is driven by the right fundamentals. On the contingent pay, although the study did not go deep into finding out the various forms of contingent pay in the organization, the general feeling of compensation was high. The researcher also recommends that a further study be done even by department to determine the specifics and take necessary actions. In the area of team work, team rewards and whole organization reward it is recommended that further study be done to enhance it.

### **Concerning Benefits and Employee's productivity**

- ❖ The respondents seemed quite aware of the benefits available and what they were entitled to and also there high level interest for benefits received, although a small group felts benefits were not important. In the light of the findings the researcher

would recommend that management to take initiatives in finding out which benefits work well and why. This could be done by creating an environment conducive for information sharing and brain storming. Different views would then be evaluated and implemented as necessary. This could help the organization in cost saving with unnecessary benefits and help in improving productivity.

### **5.5. Suggestions for Further Research**

- ❖ In light of the great number of youthful population in the organization and the number of years spent in the organization. The researcher would also recommend that further studies done on what inspire the youth to give their best and expected duration of stay.

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# APPENDIX

## **Annex – A**



**ADDIS ABABA SCIENCE & TECHNOLOGY UNIVERSITY**  
**COLLEGE OF NATURAL AND SOCIAL SCIENCE**  
**DEPARTMENT OF BUSINESS & MANAGEMENT**

Interview question with the Human Resource Manager of Kality Foods Manufacturing factory.

Dear Respondent

The purpose of this questionnaire is to gather information on the “Effect of Compensation on Employee Productivity at Kality Foods Manufacturing Factory” in partial fulfillment of the requirements for the degree of Master in Business Administration specialized in industrial management from Addis Ababa Science & Technology University. Your genuine response, have added value to the success of the thesis. The information is only used for academic purpose and will kept confidential. Should there be a problem on respondents because of their participation in this study the researchers will be liable.

### **Interview Questions**

- Q.1. Does KFMMF have a Policy on Compensation? If yes, what is the purpose of the Compensation Policy?
- Q.2. Do you believe that the company’s compensation system are adequate & satisfies the worker and leads to increase productivity?
- Q.3. Do you communicate the indirect compensation packages available to employees?
- Q.4. Did the company uses any mechanism to increase performance and productivity?
- Q.5. What are the factors that determines employee’s compensation packages at kality foods manufacturing factory?

## **Annex - B**



**ADDIS ABABA SCIENCE & TECHNOLOGY UNIVERSITY**  
**COLLEGE OF NATURAL AND SOCIAL SCIENCE**  
**DEPARTMENT OF BUSINESS & MANAGEMENT**

Dear Respondent

The purpose of this questionnaire is to gather information on the “Effect of Compensation on Employee Productivity at Kality Foods Manufacturing Factory” in partial fulfillment of the requirements for the degree of Master in Business Administration specialized in industrial management from Addis Ababa Science & Technology University. Your genuine response, have added value to the success of the thesis. The information is only used for academic purpose and will kept confidential. Should there be a problem on respondents because of their participation in this study the researchers will be liable.

Sincerely

Habtamu Abebe

Cell phone: 0911-17-44-48

Email: [habetamu0002@gmail.com](mailto:habetamu0002@gmail.com)

Thank you in advance, for your cooperation

### Part I: Demographic Characteristics

1. Gender: Male ☐ Female ☐
2. Age: Under 25 ☐ 26 - 40 ☐ 41 - 60 ☐ Over 60 ☐
3. Educational level: Below 10 grade ☐ certificate ☐ Diploma ☐ Degree ☐  
Master and above ☐
4. How long have you worked in KFMM: <5 year ☐ 5-10 years ☐ 10-15 years ☐  
15-20 years ☐ >20 years ☐
5. Your department: Administration ☐ Production ☐ technique ☐ Marketing ☐  
Logistic and procurement ☐ Finance ☐

### PART II: Employee Compensation Related Questions

6. Factors that determine the compensation package at KFMM

| S.No  | Rank the Factors that determine the compensation package at your company | Frequency | percentage | Rank |
|-------|--------------------------------------------------------------------------|-----------|------------|------|
| A     | Job or position of employee                                              |           |            |      |
| B     | Performance of employee                                                  |           |            |      |
| C     | Skill and knowledge                                                      |           |            |      |
| D     | Educational qualifications of employees                                  |           |            |      |
| E     | Collective agreement with unions                                         |           |            |      |
| F     | Others specify .....                                                     |           |            |      |
| Total |                                                                          |           |            |      |

7. Are you satisfied by the company's compensation system and ready to boost your productivity?

Yes ☐ No ☐

8. Methods used to determine employee's compensation

The following statements describe the views of employees about compensation benefit. In the continuum of strongly agree to strongly disagree where 1 = strongly agree (SA); 2 = agree (A); 3 = Neutral (N); 4 = Disagree (D); and 5 = Strongly Disagree (SD), kindly indicate the level of your agreement with each of the statements.

Please tick the box that best fits your opinion for each statement

| S.No                   | Methods used to determine employee's compensation                                                                                              | 1  | 2 | 3 | 4 | 5  |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|----|---|---|---|----|
|                        |                                                                                                                                                | SA | A | N | D | SD |
| 8.1                    | Employee compensation costs forms a significant portion of your company's costs                                                                |    |   |   |   |    |
| 8.2                    | Employee compensation plan at KFMF is well formulated                                                                                          |    |   |   |   |    |
| 8.3                    | The pay structure at KFMF ensures there is a good balance of pays between the employees in the company                                         |    |   |   |   |    |
| 8.4                    | The pay structure at KFMF ensures that there is a good balance in comparison with other employees of other related companies.                  |    |   |   |   |    |
| 8.5                    | I feel that my job is very well defined                                                                                                        |    |   |   |   |    |
| 8.6                    | I feel I am adequately compensated for use of my skills in my job                                                                              |    |   |   |   |    |
| 8.7                    | My Job offers little or no incentives for gaining new skills or knowledge.                                                                     |    |   |   |   |    |
| 8.8                    | All the decisions affecting employee compensation are managed at one central place as opposed to every departmental head handling their areas  |    |   |   |   |    |
| 8.9                    | In my opinion a thorough survey of salary is conducted within the industry before determining a new staff salary or change in the organization |    |   |   |   |    |
| Other suggestion ..... |                                                                                                                                                |    |   |   |   |    |

| S.No                   | Financial compensations                                                                      | 1  | 2 | 3 | 4 | 5  |
|------------------------|----------------------------------------------------------------------------------------------|----|---|---|---|----|
|                        |                                                                                              | SA | A | N | D | SD |
| 9.1                    | My Basic pay is reviewed periodically                                                        |    |   |   |   |    |
| 9.2                    | My Basic pay varies from others; from the same level of employment                           |    |   |   |   |    |
| 9.3                    | My basic pay motivates me to do my work well                                                 |    |   |   |   |    |
| 9.4                    | My basic pay is well balanced compared to other employees in the company                     |    |   |   |   |    |
| 9.5                    | An increase in my basic pay will motivate me to improve my productivity.                     |    |   |   |   |    |
| 9.6                    | There exist a system in the company for compensating employees if they achieve their targets |    |   |   |   |    |
| 9.7                    | In my work, the team reward motivates me well                                                |    |   |   |   |    |
| 9.8                    | I am entitled for a reward if the whole organization achieves its set target                 |    |   |   |   |    |
| Other suggestion ..... |                                                                                              |    |   |   |   |    |

## 10. Non-Financial compensation

| S. No                  | Non-Financial compensation                                                                  | 1  | 2 | 3 | 4 | 5  |
|------------------------|---------------------------------------------------------------------------------------------|----|---|---|---|----|
|                        |                                                                                             | SA | A | N | D | SD |
| 10.1                   | I am aware of what the Conditions of Service Manual contains                                |    |   |   |   |    |
| 10.2                   | I am satisfied with the non-financial compensation I receive                                |    |   |   |   |    |
| 10.3                   | The non-financial compensation we receive are as good as most other organizations           |    |   |   |   |    |
| 10.4                   | The non-financial compensation package we have is equitable and well satisfying             |    |   |   |   |    |
| 10.5                   | There are non-financial compensations we do not have which we should have                   |    |   |   |   |    |
| 10.6                   | The non-financial compensation package as a whole is adequate                               |    |   |   |   |    |
| 10.7                   | The non-financial compensation package is attractive and boosts my productivity             |    |   |   |   |    |
| 10.8                   | The non-financial compensations available are well communicated to employees                |    |   |   |   |    |
| 10.9                   | There is a link between a well implemented non-financial compensation and high productivity |    |   |   |   |    |
| Other suggestions..... |                                                                                             |    |   |   |   |    |

## 11. Employee productivity

| S. No                                   | Employee productivity                                                             | 1  | 2 | 3 | 4 | 5  |
|-----------------------------------------|-----------------------------------------------------------------------------------|----|---|---|---|----|
|                                         |                                                                                   | SA | A | N | D | SD |
| 11.1                                    | Compensation have a direct impact on employee productivity                        |    |   |   |   |    |
| 11.2                                    | The compensation what I receive from KFMM have a direct impact on my productivity |    |   |   |   |    |
| 11.3                                    | I believe compensation impacts on productivity in the following ways:             |    |   |   |   |    |
| 11.3.1                                  | Motivates employees to perform better                                             |    |   |   |   |    |
| 11.3.2                                  | Improves punctuality to work                                                      |    |   |   |   |    |
| 11.3.3                                  | Creates job security and therefore commitment to work                             |    |   |   |   |    |
| 11.3.4                                  | Readiness to learn new skills and willingness to go the extra mile                |    |   |   |   |    |
| 11.3.5                                  | Brings improvement in the health of workers to keep them cheerful                 |    |   |   |   |    |
| Other suggestions not raised above..... |                                                                                   |    |   |   |   |    |

### **Annex - C**

#### Descriptive Statistics of compensation and employee productivity

| Variables                  | N   | Minimum | Maximum | Mean | Std. Deviation |
|----------------------------|-----|---------|---------|------|----------------|
| Financial Compensation     | 105 | 2.63    | 3.88    | 3.22 | .35            |
| Non-Financial Compensation | 105 | 2.88    | 4.88    | 3.95 | .42            |
| Productivity of employee   | 105 | 1.00    | 2.00    | 1.22 | .32            |
| Valid N (listwise)         | 105 |         |         |      |                |

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### Annex -D

Correlation between compensation (FC& NFC) and employee productivity

| Variables                  |                     | Financial compensation | Non-financial compensation | Employee productivity |
|----------------------------|---------------------|------------------------|----------------------------|-----------------------|
| Financial compensation     | Pearson Correlation | 1                      |                            |                       |
|                            | Sig. (2-tailed)     |                        |                            |                       |
|                            | N                   | 105                    |                            |                       |
| Non-financial compensation | Pearson Correlation | -.150                  | 1                          |                       |
|                            | Sig. (2-tailed)     | .127                   |                            |                       |
|                            | N                   | 105                    | 105                        |                       |
| Employee productivity      | Pearson Correlation | .904**                 | -.151                      | 1                     |
|                            | Sig. (2-tailed)     | .000                   | .124                       |                       |
|                            | N                   | 105                    | 105                        | 105                   |

\*\*. Correlation is significant at the 0.01 level (2-tailed).

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# Annex- E

## Model Summary

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .904 <sup>a</sup> | .817     | .813              | .137                       |

a. Predictors: (Constant), Non-financial compensation, Financial compensation

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## Annova Test

| Model        | Sum of Squares | df  | Mean Square | F       | Sig.              |
|--------------|----------------|-----|-------------|---------|-------------------|
| 1 Regression | 8.540          | 2   | 4.270       | 227.545 | .000 <sup>b</sup> |
| Residual     | 1.914          | 102 | .019        |         |                   |
| Total        | 10.454         | 104 |             |         |                   |

a. Dependent Variable: Employee productivity

b. Predictors: (Constant), Non-finance compensation, Financial compensation

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## Coefficients

| Model                       | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-----------------------------|-----------------------------|------------|---------------------------|--------|------|
|                             | B                           | Std. Error | Beta                      |        |      |
| 1 (Constant)                | -1.404                      | .195       |                           | -7.211 | .000 |
| Financial compensation      | .828                        | .039       | .901                      | 21.032 | .000 |
| Non- financial compensation | -.012                       | .033       | -.016                     | -.377  | .707 |

a. Dependent Variable: Employee productivity

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